



Center for Human Resources

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Peter Cappelli

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Dear Mr. Suozzi:

In the recent hearing of the Subcommittee on Select Revenue Measures of the Ways and Means Committee, I understand that you asked a witness if WOTC is still effective in a low unemployment environment.

I have studied WOTC very closely and submitted some of my studies to the Congress. Given that the panel did not provide a substantive answer to your question, I hope you will permit me to do so in this letter.

WOTC is an extremely effective policy instrument for helping disadvantaged individuals to get jobs. In the longer term, it helps break the cycle of individuals struggling to get through the application process for jobs because they have no recent work experience.

The manner in which WOTC works is straight-forward although sometimes not well understood, especially by critics. WOTC does not create jobs for eligible individuals. It influences who is hired when employers have jobs to fill.

The assumption is sometimes made that when employers have jobs to fill, they go to the ranks of the unemployed to fill them. That is rarely the case as we know from audit studies and other analyses: employers would much rather hire individuals who already have jobs. This preference is just as true in tight labor markets as in slack labor markets. The WOTC subsidy encourages employers to look to WOTC- eligible job seekers for candidates rather than to look to individuals who are already employed.

It is true that as labor markets may get tighter, it becomes more difficult to hire from competitors without raising wages, and employers are more willing to look to the ranks of disadvantaged job seekers because it is cheaper to do so. We are not at the point where employers are willing to hire all or even most of the disadvantaged job seekers: The most recent Jobs Report released March 8th 2019 shows that we still have 6.2 million unemployed individuals, 1.3 million of which are long-term unemployed. A further 1.4 million individuals are “marginally attached” – they want work but are not looking.

Perhaps the main argument in favor of the WOTC program is that it is extremely cost-effective: The tax subsidy is only granted to an employer if they hire an eligible worker; most of those individuals are receiving a range of government subsidies because of their jobless status, and those subsidies typically end when they secure a job. I calculated that the savings just in benefits from the Federal Government from moving a WOTC-eligible individual into a job, net of the \$2400 cost of the tax credit, was \$16782 per individual.

I hope this information is useful to the subcommittee.

Best regards,

A handwritten signature in black ink, appearing to read 'Peter Cappelli', written in a cursive style.

Peter Cappelli